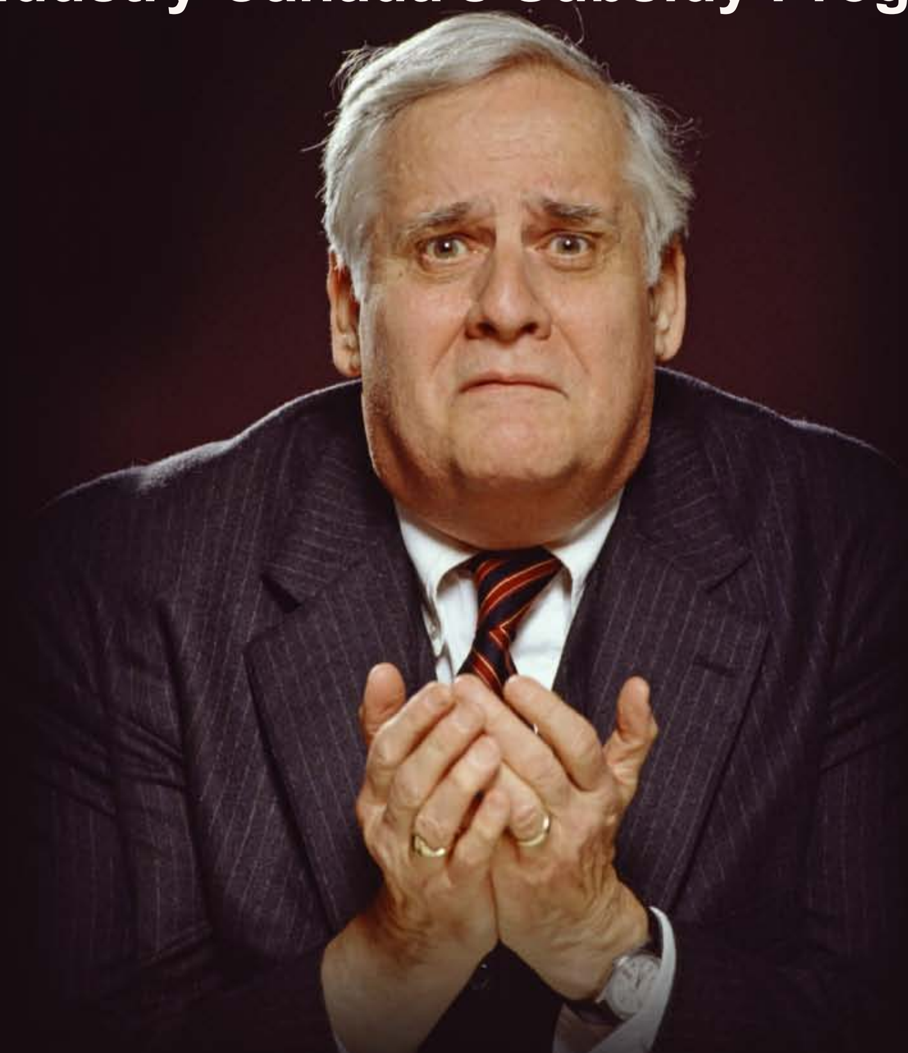
CANADIAN Taxpayers FEDERATION

Fighting for taxpayers

On the Dole

Businesses, Lobbyists and Industry Canada's Subsidy Programs



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Canadian Taxpayers Federation

www.taxpayer.com

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and more accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 72,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Provincial offices conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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The CTF's award winning web site can be found at: www.taxpayer.com

On the Dole – Businesses, Lobbyists & Industry Canada's Subsidy Programs

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Introductory Notes

This report reveals information on government financial assistance doled out to businesses by Industry Canada for the period April 1, 1982, to March 31, 2006. All the information herein was obtained through Access to Information requests made to the federal government's industry department. Since 1982, Ottawa has allocated over $18-billion in business subsidies.

Corporate welfare comes in all shapes and sizes. Within Industry Canada alone there are over 150 different programs that pay out repayable and non-repayable tax dollars to corporate Canada (and sometimes to foreign businesses). This report, entitled *On the Dole – Businesses, Lobbyists & Industry Canada's Subsidy Programs*, reviews only the money authorized through the federal industry department. Most provinces have parallel corporate welfare programs, but this paper focuses solely on the federal government's role. (The online appendix – www.taxpayer.com/pdf/subsidies.pdf – provides an itemized account of Industry Canada's corporate welfare payments to business since 1982. It is over 800 pages long.)

Corporate welfare and financial assistance programs serve neither businesses nor taxpayers and should be scrapped. Government meddling in the economy is expensive, unequal, unfair, and unnecessary.

Ottawa's handout and loan programs have proven to be riddled with compliance problems, including political scandals. The federal government's response has always been the same: first deny the difficulties and continue to peddle taxpayers a false bill of goods; when denial becomes impossible, pledge to fix the problems; and ultimately replace troubled programs with brand new ones operating under a different name but similar rules. The result is predictable and routine. Each new scheme soon becomes plagued by the same problems as the previous one.

In the process of creating a cosy relationship between corporations and the government, injustices are committed against the very people who foot the bill – the taxpayers of Canada. The infractions are numerous and show further why these financial assistance programs should be abolished.

Ottawa's industrial subsidy policy is, in part, responsible for Canada's high tax burden. In the global economy, Canada's bureaucracy and red tape is harming Canada's growth while other countries zoom ahead.

The reality is that the problems with these schemes will not disappear with newer subsidy programs built on outdated economic thinking. Reform is not the solution. Bringing Canada's industrial policy into the 21st century means eliminating corporate welfare (and similar regional development programs). Canada can be assured of long term productivity gains, job creation and technology development by offering a pro-growth tax regime. Such a program will level the playing field in business, attract investment, and stop this waste of taxpayers' money.

Taxpayers & Corporate Welfare

The Canadian Taxpayers Federation (CTF) has been an unshakable critic of corporate welfare, the government policy of providing handouts and subsidies to business. The following is a highlight of our research and advocacy to date:

- April, 1998, the CTF releases a study, entitled *Corporate Welfare: A Report on Sixteen Years of Industry Canada Financial Assistance*, detailing financial assistance authorized by Industry Canada to individuals, corporations, and other levels of government. From 1982 to 1998, over $11-billion of assistance was authorized through 32,969 separate grants, contributions, loans, interest contributions and loan guarantees.
- This report reveals that almost half of the $11-billion was paid to 75 of Canada's largest and most profitable companies. At that time, Pratt & Whitney leads the porker pack with $949-million in payments, followed by de Havilland with $425-million and Bombardier/Canadair with $245-million. The report divulged that only 8 per cent of the $2.6-billion lent out through the now-defunct Defence Industry Productivity Program (DIPP) had been repaid. The repayment record on other Industry Canada programs was similar.
- June, 1998, the CTF releases a second report, entitled *Corporate Welfare Volume Two: A Nightmare on Queen Street*, explores shortcomings in the administration of repayments, which were revealed in an independent audit of all departmental programs. At the time, Industry Canada's Technology Partnerships Canada (TPC) program was in its third year and had already loaned out more than $500-million.
- February, 2002, the CTF takes aim at Industry Canada's TPC program. The report, entitled *Peeling Back the Onion: A Taxpayers Audit of Technology Partnerships Canada*, reveals in fiscal 1996/97, three TPC projects worth $147-million were announced before final approvals were granted. These projects involved contributions to Bombardier, Ballard Power, and CAE Inc. The study also reports Ontario and Quebec companies received over 90 per cent of all funding commitments with 57 per cent destined to Quebec alone. Another revelation: an average of 56 per cent of all TPC approvals occurred in March, at the end of Ottawa's fiscal year. A spending practice dubbed "March Madness."
- This 2002 report exposes TPC – along with other government assistance schemes – as being plagued by a paltry repayment record, is politically-driven and regularly violates its own rules and regulations. In an effort to reassure taxpayers, Industry Canada begins to publish cumulative repayment numbers on a regular basis. With annual TPC expenditures in excess of $300-million, and repayments trivial, it becomes apparent that taxpayers had been conned (again).

- In the wake of Human Resources and Development Canada's "Billion Dollar Boondoggle," TPC reports and news releases promise more in terms of accountability, transparency, and value for money. For example, one annual report claims for every dollar of its investments, TPC will recoup $1.74 in loan repayments from business.
- The CTF's 2002 report further reveals the cost for creating or maintaining TPC jobs works out to $58,891 per position. In a subsequent interview with the *Ottawa Citizen*, the program's executive director acknowledges that TPC agreements with corporations do not include enforceable clauses when it comes to jobs created or maintained. Soon after, the job creation estimates – to that point 40,000 – are dropped from the TPC website.
- Finally, the 2002 report finds TPC is violating several sections of its own accountability framework including requirements for periodic audits, a comprehensive four-year audit, and release of its annual reports. The reporting is brought up to date, but in 2004 the program is rocked by revelations that unregistered and registered lobbyists collected millions of dollars in return for helping clients access TPC funding. Such lobbying payments are not permitted. The scandal is followed by a forensic audit, and funding levels to the guilty companies are reduced by the amount paid to the lobbyists. Industry Canada has no recourse against the lobbyists.
- In recent years, the CTF has become the leading critic of corporate welfare in Canada, publishing commentaries, issuing news releases and calling on governments to get out of the subsidy business. In May, 2005, in response to an announcement that yet more tax dollars would be given to Bombardier, the *Montreal Gazette* reported that "Only the Canadian Taxpayers Federation denounced the [Bombardier] deal."

SECTION I: A Primer on Corporate Welfare

What is Corporate Welfare?

Corporate welfare can be defined as any government program that provides unique benefits or advantages to specific companies or industries. This includes programs that provide direct grants to businesses, programs that provide research and other services for industries, and programs that provide subsidized loans or financial guarantees to companies. (It also includes industry-specific tax preferences, although that is not the subject of this report.) These programs are either geared toward economic development goals or to protect inefficient industries from market competition. However, the discretionary nature of these benefits opens the door to abuses.

Corporate welfare is an entrenched practice in Canada. Between 1982 and 2005, Ottawa authorized $18.4-billion in grants and loans to various companies and organizations. Of this only $7.1-billion is repayable. However, to date, less than $1.3-billion has been repaid to taxpayers.

Types of Corporate Welfare Assistance

- **i) Grants**
- **ii) Contributions**
- **iii) Repayable Contributions**
- **iv) Conditionally Repayable Contributions**
- **v) Loan Guarantees**
- **vi) Interest Contributions**
- **vii) Direct Loans**
- **viii) Other Assistance (credits, exemptions, etc.)**

Grants and **contributions** represent sunk costs and a straight hand-out from government to businesses, although contributions can be subject to an audit. **Repayable contributions** represent fixed financing agreements with set repayment schedules for the assistance provided.

Conditionally repayable contributions represent loans with repayment schedules derived from royalty and/or sales agreements. There is absolutely no guarantee that conditionally repayable contributions will be repaid to the government, or more correctly, to taxpayers. And the more flexible or unrealistic the repayment conditions, the lower the probability that loans will be repaid. The specific repayment clauses in any such agreements are not likely to be released, even under the freedom of information process.

Loan guarantees represent the Government of Canada’s willingness to be held liable for loan defaults. **Interest contributions** represent government forgiveness of interest owed. **Direct loans** are similar to repayable contributions and are monies that are to be repaid with interest over a specified period of time, much like a loan from a bank or financial institution. Other assistance comes in the form of various tax credits or exemptions that enable companies to claim certain expenditures, such as research and development.

Why Corporate Welfare is Bad Public Policy

"The problem with government intervention is not picking winners and losers; the problem is governments can never shake the losers. They sink big money into something and then they keep throwing good money after bad."
Hon. John Manley, Minister of Industry
Financial Post, October, 25, 1997

i) Market decisions should be made by investors, NOT by politicians and bureaucrats.

The proper function of the private capital market is to direct investment to projects, industries or firms that offer investors the best and/or most secure rate of return. The difference between a sound and poor investment for an individual can have profound implications, yet there is no similar discipline for government officials when using other peoples' money.

ii) Corporate welfare is NOT driven by market imperatives.

Investment decisions should be based on financial reward versus risk. Government investment decisions are driven by political and geographical imperatives. The top concern when offering subsidies is a preoccupation with the number of jobs created before the next election with little concern for profitability or sustainability.

iii) Most corporate welfare has more to do with WANTS, rather than NEEDS.

Program criteria will contain provisions to the effect that a contribution is necessary to ensure that a particular project will proceed with the desired scope, timing, or location. This kind of terminology provides considerable leeway in terms of which projects can be funded, and would only work if program personnel had in-depth knowledge of the projects that one company or another might be contemplating.

iv) Picking market winners and losers is NOT a task to which government officials are well suited.

Corporate welfare decisions are most often made by individuals with little experience in private investing. Moreover, decisions are often made in a politically-charged environment. As a result, ensuring taxpayer-financed projects meet geographical, industrial, equity, and politically saleable criteria often become an end in themselves. Governments have an abysmal record of picking winners, whereas corporate losers have a stellar record of finding government handout programs. This is aptly demonstrated when repayment provisions are linked to project results rather than a fixed repayment schedule. The repayment numbers on conditionally-repayable contributions reflect poorly upon the decision-making process, especially when the same trends appear in program after program.

v) Corporate welfare is inherently unfair, runs contrary to free and open markets, and creates a culture of dependency.

Business subsidies create an uneven playing field as money is diverted away from successful companies to less successful, but politically-connected ones. Worse still, many other Canadian firms and their workers which do not receive government grants, end up subsidizing their government-supported competitors through their taxes. Business owners lose sight of their competencies, namely to provide customers with a good or service and earn a profit. To their detriment, their investment and business decisions may be made to fit a program, and to comply with policies designed by bureaucrats. They become better lobbyists than businesspeople and morph from entrepreneurs into "grantrepreneurs." Many funding organizations have "regulars," whose names show up year after year, and program after program. It would appear as though many companies' appetite for tax dollars is insatiable and know how to work the system to gain maximum financial advantage.

vi) Corporate welfare creates a culture of dependency.

Business owners become so reliant on government assistance they build expectations of handouts into financial plans. This has the perverse effect of directing resources to less productive investment projects, which slows economic growth rather than enhancing it.

vii) Corporate welfare leads to higher taxes and forces successful businesses to subsidize their competitors.

Someone must pay for years of corporate welfare, which is amplified by the paltry repayment record of recipients. Inevitably, it is taxpayers who foot the bill.

viii) Corporate welfare is an ineffective job creation or job maintenance tool.

Proponents of corporate welfare make claims of job creation to justify providing businesses with tax dollars, yet the very companies that receive this financial assistance continue to eliminate jobs and in some cases move jobs out of Canada. Using tax dollars born in Canada to create jobs in Mexico is not an effective industrial strategy. Politicians and bureaucrats like to take credit for any jobs that might have been created or maintained, but will attribute layoffs to market conditions.

SECTION II: Corporate Welfare in Canada

What's up for Grabs? Industry Canada's Financial Assistance by Year

Industry Canada's website states its mission is to "foster a growing, competitive, knowledge-based Canadian economy. The department works with Canadians throughout the economy and in all parts of the country to improve conditions for investment, improve Canada's innovation performance, increase Canada's share of global trade and build a fair, efficient and competitive marketplace."

In reality, its meddling creates an unfair, inefficient and uncompetitive marketplace. Between April 1, 1982, and March 31, 2006, Industry Canada doled out **$18.4-billion** in various types of assistance. There are 47,690 individual records of financial assistance through 150 different programs.

These numbers do not include handouts and loans made through Ottawa's regional development agencies. Regional development funding was spun off to Western Economic Diversification (WED) and the Atlantic Canada Opportunities Agency (ACOA) in 1987, and Canada Economic Development – Quebec (CEDQ) in 1991. In fiscal 2005/06, $258-milion was handed out through WED, $326-million through ACOA, and another $283-million through CEDQ. If not for these alternative corporate welfare programs, Industry Canada's numbers would be higher still. Regional development agencies are also politically-driven and are riddled with problems. They will be examined in detail in a future report.

Table 1 – Financial Assistance by Type, fiscal years 1982-2005

TYPE OF ASSISTANCE	AMOUNT APPROVED ($)	% of TOTAL
Conditionally repayable contribution	6,161,677,544.82	34.0%
Contribution	7,222,244,743.27	39.0%
Grant	2,717,025,872.00	15.0%
Conditional/Unconditional repayable cont.	29,291,778.00	0.2%
Loan guarantee	311,441,984.00	1.7%
Repayable contribution	883,551,491.00	4.8%
Interest contribution	73,858,490.00	0.4%
Other assistance	972,552,192.58	5.3%
TOTAL	**$18,371,644,095.67**	**100.0%**

Source: Access to Information, April 1, 1982, to March 31, 2006.

Of the total, almost $10-billion or 54 per cent is either a grant or a contribution – free money by another name. If you include conditionally repayable contributions a full 88 per cent of taxpayers' money leaves Industry Canada with little chance of ever re-entering government coffers.

Of the $18.4-billion awarded since 1982, more than half has been authorized since Ottawa's books were first balanced in fiscal 1997/98. Ottawa has abandoned the deficit-busting spending restraint of the early- and mid-1990s.

Industry Canada remains a bloated government department that wastes billions of dollars through ineffective handout schemes. Its short-sighted policies have allowed some companies to essentially hold taxpayers hostage as a result of their cozy relationship with the federal government.

Table 2 – Industry Canada's Financial Assistance, fiscal years 1997-2005

Fiscal Year	Total Assistance ($)
1997-98*	1,528,104,235
1998-99	1,934,505,073
1999-00	1,180,828,692
2000-01	953,450,059
2001-02	1,068,699,275
2002-03	620,470,007
2003-04	410,101,338
2004-05	538,697,215
2005-06	1,016,999,651
TOTAL	**$9,251,855,545**

* Fiscal year federal budget was balanced.
Source: Access to Information.

Welfare's Repeat Offenders and One Hit Wonders: Top 50 Recipients

Since the CTF's first report in 1998, very little has changed at the summit of subsidies. Pratt & Whitney is again in top spot having received $1.5-billion in authorizations since 1982. In 1998, de Havilland ranked number two although it has now been absorbed by Bombardier Aerospace, the former third place finisher. Today, over two-thirds of a billion dollars has been approved to Bombardier. (This figure does not include recent promises to fund the aerospace firm's new aircraft or Export Development Canada subsidies.) The top five have each secured $320-million or more in assistance and loans and the top ten have over $125-million each in authorizations. The top ten are in a class of their own and should all be considered the welfare deadbeats. (A distinguished one-hit wonder is the Wachovia Bank. Based in North Carolina it is interesting to note how it ranks #23 with over $42-million received from Canadian taxpayers.)

Table 3 – Top 50 Financial Assistance Recipients, fiscal years 1982-2005

RANK	Applicant Legal Name	Amount Authorized ($)
1	Pratt & Whitney Canada Corp.	1,495,509,079
2	Bombardier	745,282,654
3	General Motors of Canada Limited	360,829,000
4	Bell Helicopter Textron Canada Limited	338,747,004
5	CAE Inc.	321,022,296
6	Societe Generale de Financement du QC	293,000,000
7	Groupe Mil Inc. (Le)	230,500,598
8	Honeywell Aerospatiale Inc.	207,922,914
9	CMC Electronics Inc.	158,798,133
10	Trentonworks Ltd.	127,753,226

11	Ford Motor Company of Canada	104,200,000
12	Spar Aerospace Ltd.	99,877,074
13	Petromont Inc.	95,800,000
14	Litton Systems Canada	89,319,543
15	Rolls-Royce Canada Limited	87,602,250
16	Cascade Data Services, Richmond B.C.	77,214,319
17	Repap New Brunswick Inc.	74,557,000
18	Indal Technologies Inc.	69,086,979
19	Mitel Networks Corporation	60,000,000
20	Inco’s Voisey’s Bay Nickel Company Limited	60,000,000
21	Hyundai Auto Canada Inc.	55,000,000
22	MacDonald, Dettwiler and Associates Inc.	52,055,714
23	Wachovia Bank National of North Carolina	42,655,781
24	Statewest Airlines Inc.	42,273,215
25	Metro Express Inc.	41,915,573
26	Noranda Inc.	41,668,750
27	Research In Motion Limited	38,604,897
28	IBM Canada Ltd.	33,050,000
29	Aeterna Zentaris Inc.	31,423,802
30	Northstar Aerospace (Canada) Inc.	30,651,023
31	Ifire Technology Inc.	30,000,000
32	General Dynamics Canada Ltd.	28,661,617
32	Zenon Environmental Inc.	28,500,500
33	Canadian Opera House Corporation, Toronto	25,000,000
34	Héroux Devtek Inc.	23,412,034
35	Goodrich Aerospace Canada Ltd.	23,035,575
36	Canadian Shipbuilding & Engineering Ltd.	21,900,000
37	Lockheed Martin Canada	20,410,334
38	Raytheon Canada Limited	20,319,760
39	Magellan Aerospace Limited	20,042,236
40	Westport Innovations Inc.	18,912,010
41	Magna International Inc.	18,019,576
42	Western Star Trucks Inc.	16,223,250
43	Working Ventures Canadian Fund Inc.	14,550,000
44	Messier-Dowty Inc.	13,484,577
45	Ulnooweg Development Group Inc.	13,454,179
44	Sydney Steel Corporation	10,967,600
46	World Heart Corporation	9,980,000
47	Premier Tech 2000 ltée	9,000,000
48	St. Eugene Mission Hotel & Golf Course Funding Corp.	8,879,739
49	Wi-LAN Incorporated	8,754,648
50	SNC - Lavalin Energy Control Systems Inc.	8,718,900
TOTAL		**$5,898,547,358**

Source: Access to Information, April 1, 1982, to March 31, 2006.

The top 50 recipients account for a third of all assistance. The remaining two-thirds of funds ($12-billion) have been distributed to countless other businesses, organizations, and foundations. Thousands of firms and groups receive subsidy handouts from taxpayers.

SECTION III: Billions Out the Backdoor

Why did $2.4-billion Cross the Road: Federal Foundations

Alternate delivery of programs and services was a main theme of the 1996 budget. It resulted in programs and funding being transferred to third parties, such as foundations and other arms length collaborative arrangements.

Since 1990, Industry Canada has doled out $3.4-billion to a number of foundations and alternative deliverers, the largest of which are located in downtown Ottawa. This money is included in the $18.4-billion total. Some $2.4-billion has flowed from Industry Canada to the Canada Foundation for Innovation, which is located directly across the street from the industry department (230 Queen St. and 235 Queen St.). Taxpayers only need imagine Brinks trucks and guards with wheelbarrows delivering bags of money to offices around downtown Ottawa, away from the watchful eye of lawmakers.

Table 4 – Grants & Contributions to Industry Canada's Foundations, 1990 to 2005

Name of Foundation	Amount of Grants & Contributions ($)
The Canadian Institute for Advanced Research	25,000,000
Pierre Elliott Trudeau Foundation	125,000,000
Canada Foundation For Innovation	2,400,964,384
Canada-Israel Industrial R&D Foundation	8,000,000
Genome Canada	600,000,000
Canadian Centre for Creative Technology	60,000,000
Canadian Youth Business Foundation	17,500,000
TOTAL	**$3,236,464,384**

Source: Access to Information.

In addition to foundations, other creations of the federal government exist that transfer large sums of taxpayers money again, just out of reach of public scrutiny. Two such alternate sources of cash are Canarie Inc. and Precarn Inc. and both are exempt from Canada's access to information laws. According to their websites, Canarie was established in 1993, "to accelerate Canada's advanced Internet development," and has "funded numerous advanced Internet applications projects, providing some 500 companies with the opportunity to achieve business success through innovation." Another company, Precarn "works with Canadian companies who are seeking to commercialize their new ideas to get an edge in global markets."

Each has had significant non-repayable grants and contributions, courtesy of taxpayers. Canarie has received $357-million since its inception. Precarn has received $75-million. These quasi-foundations then dole out the money to third parties, under what the auditor general has termed "delegated arrangements." Not that all of the cash ends up in the hands of corporations, but the practice surely complicates the task for anyone – like taxpayers, for example – who want to try and follow the money out the door.

Table 5 – Alternate Sources of Cash through Industry Canada, since inception

Name	Address in Ottawa	Amount of Grants and Contributions ($)
Canarie Inc.	110 O'Connor St., 4th Floor	357,330,145
Precarn Associates	1525 Carling Ave.	75,404,550
TOTAL		**$432,734,695**

Source: Access to Information.

In addition to the Industry Canada programs that approve billions of tax dollars for corporations, and other groups each year, billions more are up for grabs through foundations and alternate sources. If you know the right people and understand how the system works, there is no shortage of ways to get gifts of money from the government. A closer look at the entire system of doling out other peoples money, exposes the programs as disastrous for taxpayers. Chronic abuses from government officials and recipients plague Industry Canada's financial assistance programs and reinforce why many of them should not exist.

SECTION IV: Your Tax Money Down the Drain (Part I)

Repayment Record of Recipients

When the CTF asked for repayment records of loan recipients back in 1998 the requests were denied. Again in 2002, requests were denied, but official complaints filed with the Information Commissioner were successful and repayment records slowly came to light. The Access to Information Act's privacy regulations allow recipients to make their case as to why repayment numbers should not be released. Long ago, Ottawa should have made it mandatory for corporate welfare recipients to approve disclosure of repayment records. It is somewhat maddening that taxpayers are not consulted on who or what gets billions of their dollars, yet those who receive those tax dollars have to give their permission before any repayment records or information is disclosed by the government.

The table below summarizes all repayable funding approved between April 1, 1982 and March 31, 2006. Of the $18.4-billion authorized, 39 per cent, or $7.1-billion is classified as repayable. Of that amount, less than $1.3-billion has been returned to the public purse. Taxpayers have paid out billions of dollars to various companies and businesses, industries and groups. Yet less than 20 per cent of the so-called repayable money has been returned, which is approximately 7 per cent of all authorized payments. By any measure this is not a good use of scarce tax dollars.

Table 6 – A Summary of all Repayable Funding by Program, fiscal years 1982-2005

Program Description	Total Authorized Assistance	Total Repayments	% Repaid
ABORIGINAL BUSINESS DEVELOPMENT PROGRAM	$18,721,144	$5,231,914	27.95%
ABORIGINAL BUSINESS DEVELOPMENT JOINT VENTURES PROGRAM	$922,500	$771,552	83.64%
ACID RAIN ABATEMENT PROGRAM	$25,000,000	$25,000,000	100.00%
CAN-BC AGREEMENT ON COMMUNICATIONS & CULTURAL INDUSTRIES	$227,310	$0	0.00%
CANADIAN APPAREL & TEXTILE INDUSTRIES PROGRAM	$930,500	$0	0.00%
CANADIAN ENVIRONMENTAL INDUSTRY STRATEGY	$2,098,500	$519,921	24.78%
CANADIAN INDUSTRIAL RENEWAL BOARD	$4,340,196	$172,238	3.97%
CITI TRANSITION PROGRAM	$733,333	$0	0.00%
DRIE ACT NO. 5 - SPECIAL ASSISTANCE PROVISION	$132,350,500	$39,642,919	29.95%
NEWFOUNDLAND SUB AGREEMENT FOR TOURISM DEVELOPMENT	$122,705	$0	0.00%
QUEBEC SUB AGREEMENT FOR INDUSTRIAL DEVELOPMENT	$67,944,975	$39,872,016	58.68%
QUEBEC SUB AGREEMENT FOR INDUSTRIAL DEVELOPMENT (1991)	$121,326,604	$70,963,071	58.49%

Program Description	Total Authorized Assistance	Total Repayments	% Repaid
QUEBEC SUB AGREEMENT FOR TOURISM DEVELOPMENT (1992-97)	$17,700	$0	0.00%
ONTARIO SUB AGREEMENT FOR TOURISM DEVELOPMENT	$16,450,000	$9,060,049	55.08%
MANITOBA SUB AGREEMENT FOR URBAN BUS DEVELOPMENT	$78,750	$0	0.00%
MANITOBA SUB AGREEMENT FOR TOURISM DEVELOPMENT	$173,594	$78,697	45.33%
SASKATCHEWAN SUB AGREEMENT FOR ADVANCED TECHNOLOGY	$958,194	$371,683	38.79%
SASK. SUB AGREEMENT FOR NORTHERN ECONOMIC DEVELOPMENT	$400,000	$0	0.00%
YUKON SUB AGREEMENT FOR TOURISM DEVELOPMENT	$2,229,383	$1,218,494	54.66%
YUKON SUB AGREEMENT FOR SMALL BUSINESS INCENTIVE	$525,700	$242,550	46.14%
YUKON SUB AGREEMENT FOR SMALL BUSINESS SUPPORT	$167,265	$33,449	20.00%
YUKON SUB AGREEMENT FOR TOURISM DEVELOPMENT	$238,000	$148,400	62.35%
ALBERTA SUB AGREEMENT FOR BUSINESS AND COMMUNITY DEVELOP.	$49,250	$0	0.00%
BRITISH COLUMBIA SUB AGREEMENT FOR TOURISM DEVELOPMENT	$8,272,613	$5,114,335	61.82%
DEPARTMENT OF INDUSTRY ACT - SEC. 13 & 14	$5,520,000	$0	0.00%
DEFENCE INDUSTRY PRODUCTIVITY PROGRAM (DIPP)	$2,420,564,377	$515,695,640	21.30%
ENTERPRISE DEVELOPMENT PROGRAM	$49,500,000	$21,243,220	42.92%
ENVIRONMENTAL TECHNOLOGY COMMERCIALIZATION PROGRAM	$8,781,334	$247,933	2.82%
ST-LAWRENCE RIVER ENVIRONMENTAL TECHNOLOGY DVLMT PROG	$8,350,580	$272,250	3.26%
FEDNOR	$23,150,489	$11,055,959	47.76%
HYDROGEN EARLY ADOPTERS PROGRAM	$20,517,159	$0	0.00%
INDUSTRY & LABOUR ADJUSTMENT PROGRAM	$86,237,192	$56,572,195	65.60%
INDUSTRIAL & REGIONAL DEVELOPMENT PROGRAM	$351,910,190	$231,179,024	65.69%
ISTC ACT - SPECIAL ASSISTANCE PROVISION	$184,695,000	$445,500	0.24%
MICROELECTRONICS & SYSTEMS DEVELOPMENT PROGRAM	$59,698,964	$25,905,965	43.39%
NATIVE ECONOMIC DEVELOPMENT PROGRAM	$30,384,390	$2,986,661	9.83%
NEW FEDNOR	$10,693,326	$588,185	5.50%
NEW FEDNOR EXTENSION	$11,208,527	$186,160	1.66%

Program Description	Total Authorized Assistance	Total Repayments	% Repaid
NATIONAL PERSONNEL INTERCHANGE PROGRAM	$900,000	$492,724	54.75%
ONTARIO BASE CLOSURE ADJUSTMENT PROGRAM	$3,780,500	$1,882,224	49.79%
PROGRAM FOR STRATEGIC INDUSTRIAL PROJECTS	$300,000,000	$0	0.00%
REGIONAL DEVELOPMENT INCENTIVES PROGRAM	$1,341,900	$1,544,293	115.08%
SECTOR CAMPAIGN - ADVANCED MANUFACTURING TECHNOLOGY	$2,971,075	$90,981	3.06%
SECTOR CAMPIAGN - ENVIRONMENTAL INDUSTRIES	$1,273,900	$100,584	7.90%
SECTOR CAMPAIGN - FOREST PRODUCTS R&D/INNOVATION	$2,166,400	$1,631,026	75.29%
SECTOR CAMPAIGN - MICROELECTRONICS	$8,264,000	$4,346,104	52.59%
SECTOR CAMPAIGN - MEDICAL DEVICES TECHNOLOGY ASSISTANCE	$700,000	$649,526	92.79%
SOFTWOOD INDUSTRY & COMMUNITY ECONOMIC ADJUSTMENT INITIATIVE	$56,131,200	$1,583,377	2.82%
SCHOOL NET - COMMUNITY ACCESS PROGRAM	$9,860,145	$283,404	2.87%
STRATEGIC TECHNOLOGIES - BIO-TECHNOLOGY	$17,198,932	$4,229,534	24.59%
STRATEGIC TECHNOLOGIES - ADVANCED INDUSTRIAL MATERIALS	$12,924,781	$2,332,235	18.04%
STRATEGIC TECHNOLOGIES - INFORMATION TECHNOLOGY	$576,999	$1,118	0.19%
TECHNOLOGY OPPORTUNITIES IN EUROPE PROGRAM	$12,033,000	$279,647	2.32%
TECHNOLOGY PARTNERSHIPS CANADA	$3,031,559,062	$169,255,020	5.58%
WESTERN TRANSPORTATION INDUSTRIAL DEVELOPMENT	$3,624,700	$2,984,875	82.35%
TOTAL	**$7,140,796,838**	**$1,256,506,651**	**17.60%**

Source: Access to Information, April 1, 1982, to March 31, 2006.

Disastrous and Discredited: Defence Industry Productivity Program

The Defence Industry Productivity Program (DIPP) was an early corporate welfare scheme. Its financial records should have convinced Industry Canada officials long ago that government funding schemes are rife with trouble. The line item in Table 6, above, reveals that DIPP – a loan program that has not existed in over a decade – authorized $2.4-billion in loans, yet to date has only recouped $516-million, or 21 per cent. Over two decades, DIPP doled out tax dollars to many of Canada’s best known and most profitable companies.

In addition to paltry repayments, it wasted tax dollars on business subsidies and benefited companies with close ties to the government. The program was ultimately labeled a failure by politicians. Yet after its demise, the federal government moved quickly to set up a new scheme with a record even worse than the discredited DIPP.

Subsidy Sinkhole: Technology Partnerships Canada

Replacing DIPP was Technology Partnership Canada (TPC), a new and improved program, or so taxpayers were told. Established on April 1, 1996, by the federal government to provide funding support to the private sector, TPC quickly became Ottawa's flagship corporate welfare program. Despite damning internal audits, paltry repayments, and chronic rule-breaking by lobbyists, TPC is still alive and kicking, celebrating its 10th birthday this past April. Some might suggest the acronym stands for: The Program Continues.

When Ottawa unveiled TPC in the 1996 budget, it proclaimed the new program would be better managed. It would ensure the repayment of tax dollars. This was no corporate welfare program: success would be measured in the program's cost recovery.

The public was also told by a succession of Liberal industry ministers that every dollar invested by TPC would return one-and-a-half to two dollars to the federal government. This guarantee should have set off alarm bells. With a 50 per cent or even 100 per cent return on investment, why were private investors not lining up for a piece of the action? It is because Ottawa's projections were a sham.

Access to Information requests show that over the last decade, TPC has approved $3-billion in corporate welfare yet recouped only $169-million through repayments – just under 6 per cent. Repayments records show not only that the top recipients have paid very little back, in some cases they refuse to authorize the release of their respective company's repayment information. Whose money is it anyway?

Table 7 – Repayment Record of Top TPC Recipients

Company	Amount Approved ($)	Repayments ($)	Repayment (%)
Pratt & Whitney Canada	691.8-million	21.1-million	3.1
Bombardier	141.8-million	36.3-million	25.6
Honeywell	116.0-million	6.2-million	5.4
CAE Electronics	260.6-million	17.5-million	6.7
Cascade Data Services*	77.2-million	Not available	Not available
Rolls Royce	75.2-million	0	0
Shire (Biochem Pharma)*	80.0-million	Not available	Not available
Voisey's Bay Nickel (Inco)	60.0-million	0	0
Sanofi Pasteur (Aventis)*	60.0-million	Not available	Not available
Mitel Networks	60.0-million	0	0
Goodrich Aerospace (Coltec)*	48.6-million	Not available	Not available
Research in Motion	38.4-million	9.1-million	23.7
IBM Canada*	33.0-million	Not available	Not available
iFIRE Technology	30.0-million	0	0

Company	Amount Approved ($)	Repayments ($)	Repayment (%)
Aeterna Zentaris*	29.4-million	Not available	Not available
Ballard Power	29.4-million	9.2-million	31.4
Zenon Environmental	19.7-million	0.7-million	3.7
TOTAL	**$1.851-billion**	**$100.2-million**	**5.4%**

* Companies who have to date not authorized the release of repayment information.
Sources: Access to Information; TPC News Releases; and Industry Canada repayment data, March, 2006.

In September, 2005, then-Liberal Industry Minister David Emerson announced plans to wind TPC down and replace it with another alphabet-soup subsidy fund, Transformative Technologies Program (TTP). Again, there were pledges of greater transparency, accountability and value for taxpayers. This is how the government reacts to discredited programs: it shuts them down, says “don’t worry, we’ll get it right next time,” and establishes new ones that do the exact same thing. From DIPP to TPC to TTP – none work and all are plagued by the same problems. How many damning internal audits does it take to kill a government program? How many billions of tax dollars have to be flushed before the government acts?

SECTION V: Your Tax Money Down the Drain (Part II)

For Government Eyes Only: What You May or May Not Find in the Public Accounts

While the Public Accounts of Canada catalog all payments in excess of $100,000 from programs such as TPC, payments to foundations are usually reflected in one line. The Public Accounts for fiscal 2001/02 simply show a payment of $1.25-billion to the Canada Foundation for Innovation. The accountability stops there with no additional information as to where the money ended up. It makes one wonder why the government even bothers putting the last twelve years of Public Accounts online when billions of tax dollars are obscured from public scrutiny. In 2005, the auditor-general criticized the lack of transparency and accountability in the federal government's foundations program:

> *4.3 There are inconsistencies in the governance regime for foundations. The independence of foundations still poses risks for reporting and ministerial oversight, and the application of the transfer payment and alternative service delivery policies is unclear.*
>
> *Background and other observations*
>
> *4.4 In 1997, the government introduced a new approach to achieving policy objectives by transferring public funds to foundations — non-profit corporations considered to be at arm's length from the government. In our sample, three foundations were established by direct legislation and the others were established under provisions such as the* Canada Corporations Act*. At 31 March, 2004, more than $9-billion in grants had been paid to foundations.*
>
> *4.5 In the Auditor-General's observations on the government's summary financial statements in the Public Accounts of Canada, we have raised concerns about the governance and the accountability of and accounting for government transfers to foundations. These are up-front payments made many years in advance of need. Our performance audits in 1999 and 2002 found that accountability to Parliament was placed unnecessarily at risk — the government had failed to meet the essential requirements for accountability to Parliament, namely credible reporting of results, effective ministerial oversight, and adequate provision for external audit.*[1]

To this day, Canada's $9-billion-plus foundations program remains immune from freedom of information laws and only recently have the auditor-general's powers been expanded to look into Canada's foundations program.

This process should be of great concern to taxpayers and all Canadians. The dollar amount given to organizations, such as the Canada Foundation for Innovation, have increased year after year and new foundations have been formed, such as Genome Canada, which has received $600-million in government funding since its inception in February, 2000.

In 2002, the auditor-general looked at Industry Canada's arrangements with Genome Canada and found several deficiencies all relating to a lack of openness and transparency.

[1] Chapter Four, "Accountability of Foundations," 2005 Auditor-General's Status Report.

Even new rules designed to enhance the transparency of government handout schemes fall short of public expectations.

As of January 1, 2006, Industry Canada's website lists all grant and contribution awards in excess of $25,000. While this is a welcome – albeit modest improvement – there is still no information on funds that have flowed through to foundations and other third parties. A comparison of the on-line listings with listings previously obtained by the CTF suggests inconsistencies. At least three large contributions – approved in the latter part of March, 2006 – are nowhere to be found including a $25-million payment to the Canadian Opera House Corporation, which was defined as "strategic infrastructure." As the auditor-general and others have stated, basic accountability is lacking with these schemes. Suspicions and demands for openness will continue as long as this type of shoddy book-keeping persists.

Ducking Transparency of the Treasury Board

One of the more distressing observations when looking at Industry Canada's financial assistance programs is how savvy and adept government officials and recipients alike have become at securing public money. Any contribution over $10-million must be approved by Treasury Board, while contributions over $20-million must be approved by Cabinet. Over the years it is startling how much taxpayer money gets doled out just under the radar of the Treasury Board.

Table 8 – TPC Investments just under $10-million 1999 to 2005

Applicant Legal Name	Program	Date of Offer	Amount Approved ($)
Sierra Wireless Inc.	TPC	2000-10-19	9,999,900.00
Norsat International Inc.	TPC	2000-10-17	9,999,700.00
fSONA Communications Corporation	TPC	2002-01-03	9,994,334.00
Thales Canada Inc.	TPC	1997-11-14	9,990,000.00
Aeterna Zentaris Inc.	TPC	1999-11-15	9,982,080.00
World Heart Corporation	TPC	2001-11-02	9,980,000.00
Iogen Bio-Products Corporation	TPC	1999-01-13	9,966,933.00
Honeywell ASCa Inc.	TPC	1999-11-17	9,940,000.00
Thales Canada Inc.	TPC	2002-10-31	9,900,000.00
Messier-Dowty Inc.	TPC	2005-12-02	9,889,000.00
MacDonald, Dettwiler and Associates Inc.	TPC	2002-11-25	9,853,681.00
Aeterna Zentaris Inc.	TPC	1999-11-15	9,825,676.00
CellFor Inc.	TPC	2005-03-24	9,800,000.00
Harris Canada Inc., Wireless Access Div	TPC	1998-07-09	9,681,900.00
Aeterna Zentaris Inc.	TPC	1999-11-15	9,616,046.00
QuestAir Technologies Inc.	TPC	2003-06-06	9,600,000.00
Cellex Power Products, Inc.	TPC	2005-03-29	9,544,920.00
Sierra Wireless Inc.	TPC	2004-03-31	9,539,954.00
D-Wave Systems Inc.	TPC	2005-09-22	9,512,000.00
Optech Incorporated	TPC	1999-11-17	9,502,284.00
Sandvine Incorporated	TPC	2003-05-30	9,500,000.00
Honeywell ASCa Inc.	TPC	2005-03-29	9,401,100.00

Applicant Legal Name	Program	Date of Offer	Amount Approved ($)
Trojan Technologies Inc.	TPC	2004-03-31	9,360,000.00
INEX Pharmaceuticals Corporation	TPC	1999-11-12	9,329,912.00
Honeywell ASCa Inc.	TPC	1999-09-24	9,292,000.00
LPP Manufacturing Inc.	TPC	2001-03-19	9,279,940.00
Migenix Inc.	TPC	2005-03-31	9,265,620.00
Petrobank Energy and Resources Ltd.	TPC	2005-03-31	9,000,000.00
Azure Dynamics Inc.	TPC	2002-03-27	9,000,000.00
TOTAL			**$279,546,980.00**

Source: Access to Information.

Almost ten per cent of TPC approvals are under the $10-million mark – the amount that would require Treasury Board's approval. Why might officials and recipients opt for this route? Without as many hoops, the money flows quicker – albeit by smaller amounts – and there is less scrutiny over recipients, etc. In short, it makes it easier for industry officials to funnel tax dollars from A to B, from government coffers to recipients' bank accounts.

Another shocking display of government arrogance in the provision of financial assistance was a February 22, 2005, announcement by then-Minister of Transport and "political lieutenant of Quebec" Jean Lapierre. The news release committed $115-million (through TPC) to Bell Helicopter Textron Canada Limited in a joint initiative with the Government of Quebec. In the second paragraph, just after mentioning the $115-million, the release read, "Treasury Board approval will be sought shortly for the implementation of this initiative." Unfortunately, this was not an isolated incident.

A $100-million contribution to the Ford Motor Company was announced on October 29, 2004, but not approved until December 1, 2005 – more than one year later! A $200-million contribution to General Motors was announced on March 2, 2005, and not approved until December 5, 2005. Both were approved under a newly-invented handout program named Program for Strategic Industrial Projects (PSIP).

Table 9 – Projects Announced Before Being Approved by the Treasury Board

Recipient	Program	Announcement	Approval	Amount ($)
Bombardier Canadair	**	Nov-06	*	350,000,000
Toyota Motor Corporation	**	30-Jun-05	*	55,000,000
International Truck & Engine Corp.	TPC	16-May-05	7-Dec-05	30,000,000
General Motors of Canada	PSIP	2-Mar-05	5-Dec-05	200,000,000
Bell Helicopter Textron Canada Ltd.	TPC	22-Feb-05	1-Jun-05	115,340,000
Ford Motor Company	PSIP	29-Oct-04	1-Dec-05	100,000,000
CAE Inc.	TPC	7-Mar-97	27-Mar-97	31,181,758
Bombardier DeHavilland	TPC	17-Dec-96	21-May-97	56,345,998
Ballard Power Systems Inc.	TPC	20-Nov-96	29-Oct-97	29,359,998
Bombardier Canadair	TPC	21-Oct-96	20-Mar-97	85,491,595
TOTAL				**$1,052,719,349**

* Not yet approved as of March 31, 2006.
** News release or statement does not identify program.
Source: Government of Canada news releases and Access to Information.

To announce a spending initiative without having gone through proper channels is a prime example of how politicians use subsidy schemes to achieve political ends. It is also how tax dollars are spent without oversight. Evading transparency and accountability is a sneaky practice and it should be banned. Remember the Sponsorship Program scandal!

Rule-Breaking by the Politically Connected: The Role of Lobbyists

Audit after audit has found problems with how Industry Canada deals with lobbyists – the politically-connected insiders who help some of the most profitable companies in Canada access government money. In September, 2005, then-Liberal Industry Minister David Emerson released results of an internal audit that showed many companies were found to have been paying "success fees," a violation of rules. These payments are made to lobbyists in exchange for help securing tax dollars from government officials. The audit also found that many of the lobbyists were not registered, another breach of regulations. But Industry Canada officials were just as guilty, as they were doling out hundreds of millions of tax dollars without even bothering to check their own website to determine if recipient companies' lobbyists were registered.

Another recent Industry Canada internal audit revealed that one-third of companies that received loans through Technology Partnerships Canada (TPC) continued to pay "success fees." Payments range from $100,000 to $900,000 although the practice is forbidden by Industry Canada rules. In total, 16 of the 46 companies audited paid out $3.3-million in illegal contingency fees.

With billions up for grabs it is no wonder Industry Canada ranks at the top of the list when it comes to most-lobbied government departments. Over 2,230 lobbyist registrations can be found when looking at Industry Canada's statistics found in the Lobbyists Registration System.

Table 10 – Number of Lobbyist Registrations by Ministry, as of January, 2007

Ministry	Number of Lobbyist Registrations
Industry Canada	**2,234**
Finance Canada	**1,674**
Foreign Affairs & International Trade	**1,315**

Source: Industry Canada's online Lobbyists Registration System.

It is also worth noting the shrewdness of many companies when it comes to lobbying the federal government for handouts. When governments change, top recipients substitute Liberal insiders for Conservative insiders. Take Pratt & Whitney, for example. The lobbyist registration system shows Pratt & Whitney has enlisted Conservative-insider Yaroslav Baran to lobby the federal government. Another insider Geoff Norquay, a former communications director to Stephen Harper, has an extensive list of clients. In fact, one of his clients is Alcan, a company recently handed money by the Conservative government.

Companies are also tapping former high-ranking Industry Canada bureaucrats. These individuals know the process, the people and the loopholes – all of which can help a company secure big dollars. Among Pratt & Whitney's team of lobbyists is a former Assistant Deputy Minister (ADM) of Industry Canada John Banigan. This former ADM-turned-lobbyist also serves with CAE's team of supplicants. Meanwhile CAE's President and CEO Robert E. Brown, who previously served as President of Bombardier Aerospace, sat on the government's TPC Advisory Board. The practice of lobbying and the cleverness of would-be recipients show that when it comes to corporate welfare, it is all about who you know.

Shameless Pork Barreling & Vote-Buying with Tax Dollars

One of the more shameful practices surrounding Ottawa's corporate welfare programs is how politicians use tax dollars in an attempt to buy votes with the taxpayers' own money. The Liberals were masters at this, regularly dropping billions in pre-election spending benders. Two notable offenses include a $500-million announcement for Ontario's auto industry during the 2004 federal election and a two-year plan for Quebec's aerospace sector worth hundreds of millions of dollars made during the most recent federal election. Just before the call of the last election, the former Liberal government – through Industry Canada – signed off on a deal that would provide CAE another $189-million in TPC funding. This increased the Quebec company's share of TPC disbursements to $260-million or $120-million more than Bombardier. (Worry not for Bombardier, the Conservative government has pledged $350-million more for its operations.)

Despite alleged long-standing opposition to this practice, the Conservatives too have been guilty of playing politics with tax dollars during elections. A June, 2006, *CanWest* news story stated that the Conservative government has continued to dole out corporate welfare money in Atlantic Canada, Quebec and the West since taking office. During the recent Nova Scotia provincial election, Foreign Affairs Minister and Minister of the Atlantic Canada Opportunities Agency (ACOA) Peter MacKay stated that electing a Progressive Conservative candidate would mean easier access to ACOA's funding. "He's going to come knocking and we're going to deliver," said Minister MacKay. Grit or Tory, it's the same old story.

All political parties should realize that the public sees through the old practice of using tax dollars to buy votes. Just previous to the last federal election, the Liberals embarked on the largest spending spree in Canadian history. From November 3rd to November 25th, 2005, the CTF tracked 145 pre-election spending announcements totaling $24.5-billion made by Paul Martin's Liberal government. This worked out to more than $1-billion per day or $44-million every hour. Despite the largesse, the Liberals lost that election. It is hoped the new government will have more respect for taxpayers than did the previous one and not allow this practice to continue.

The Spin: News Releases that Promise Everything and Mean Nothing

The Auditor-General's Report of 1999 indicated that some royalty payments were structured in such a way that TPC's contributions are unlikely to ever be fully repaid. The industry department was asked to explain how it could use terms such as "fully repayable" in its reports to Parliament when this label was not true. Shortly after, the term "fully" disappeared from TPC news releases. The term "repayable" still showed up on occasion, but news releases would often describe payments as "strategic" investments, "great Canadian ideas," investments that "help improve the quality of life for Canadians," etc. In reality, businesses are a means to generate revenue for their owners and shareholders, a task made easier by handouts from taxpayers.

Without doubt, the company Research in Motion – makers of the "Blackberry" – is a Canadian success story. But is it really a TPC success story? Industry Canada's website calls it a "success story" and boasts, "We were there before BlackBerry® was first sold." A closer look reveals much greater investment from the private sector before TPC involvement. The company received its first TPC contribution for $1.6-million during fiscal 1997/98, just previous to the Blackberry hitting the market. It received $38.6-million in total subsidies, most of which came after the Blackberry helped the company's shares skyrocket. TPC played only a minor role.

A government website **http://www.innovationstrategy.gc.ca/** details private sector capital raised by the company during the same timeframe: $36-million from a special warrant in 1996 and $115-million when it listed on the Toronto Stock Exchange in 1997. Industry Canada provided another $3.3-million in 1998/99. Later in 1999, an additional $250-million was raised by the firm when it listed on the NASDAQ stock exchange. The market was the real key to this firm's success as private capital recognized the company's potential. In the last few years, the company's shares have skyrocketed and its shareholders aptly rewarded. This company did not need government handouts.

And taxpayers? To this day, less than 24 per cent of Industry Canada's "fully repayable" investments in Research in Motion have been recouped. Former Industry Minister Allan Rock once told the House of Commons that, "If it were not for Technology Partnerships Canada, Canada would not have given the world the BlackBerry." This is laughable. The numbers do not support his claim. Of course, he is the same minister who said every dollar invested by TPC would see $1 to $2 flow back to government coffers.

And finally – as mentioned in Section I – another discredited fib touted by news releases announcing subsidy payments is the alleged jobs being "created" or "maintained." More often than not jobs "maintained" over time are nowhere near what the very first celebratory news release promised. For the most part, news releases have since stopped referring to official job numbers as they have long ago been proven a sham. Taxpayers cannot be blamed for being duped, as they are not privy to those secret TPC contracts that lack enforceable clauses concerning jobs created or maintained. As a result, companies take the money and some even move the jobs out of Canada, as Bombardier has done.

SECTION VI: The "New" Government & Corporate Welfare

The Conservatives in Opposition

During the 2004 federal election, then-Opposition leader Stephen Harper criticized the general practice of corporate welfare saying it did not serve taxpayers. In a speech to the Toronto Board of Trade, Mr. Harper vowed to cut business subsidies and use the savings to lower business taxes. "I won't lower one without lowering the other. This is what I mean by low-tax solutions rather than high-spending solutions," he said.

He added, "We will only reduce business and corporate taxes further to the extent that we can reduce corporate welfare over the next term. I call it the free enterprise versus the Canada Inc. approach."

"It was an NDP leader, David Lewis, who coined the term corporate welfare bums in 1972. Unfortunately, in the past 30 years, too many corporations have been drawn into this trap by the available plethora of government loans, grants, and subsidies."

Mr. Harper wisely pledged to lower business taxes for all, reform regional development agencies and "get out of the grants and subsidies game." With the Conservatives now in government, they have sent mixed messages on their intentions with regard to business subsidies.

Baby Steps in Government

In March, 2006, Conservative Minister of Industry Maxime Bernier unpeeled a cloak of secrecy shrouding subsidies when his office released documents showing TPC repayments. It represented an important step forward in government transparency and accountability. Mr. Bernier did taxpayers a favour by finally making such information available – a change the Canadians Taxpayers Federation had demanded. Taxpayers now know that a group of 42 companies have yet to submit any reimbursements; repayment records for 88 others total $149-million; and another 78 companies repaid a total of $7.4-million but refuse to make their exact repayments public. Ottawa should push the holdouts to disclose the information.

Mr. Bernier's release fell short in two important areas. The first was in not reporting how much individual companies received through the TPC program. And second, he failed to release the Industry Department's own repayment forecasts which were significantly higher than actual repayment records. Such data would permit Canadians to know how well – or poorly – industry officials estimate repayment revenue.

Publicly available reports coupled with figures collected through Access to Information provide some insight. Not surprising, the estimates made by bureaucrats are nowhere near the actual numbers.

For the period from 1996 to 2005, Industry officials pegged total TPC repayments at $449.4-million. Had the department hit its projections, it would have recouped 21 per cent of total disbursements (which totalled $2.1-billion at the time). If only taxpayers had been so lucky. The actual amount collected was far less, ringing it at a measly $110.3-million, a mere 5 per cent of disbursements. These figures confirm what opponents of corporate welfare already know. Picking market winners and losers is not a job suited for government officials and should be stopped.

Cutting off the Deadbeats

One important change was to cut off Pratt & Whitney, king of the welfare bums when it comes to government handouts. A July, 2006, *Globe & Mail* story pointed to a February, 2006, memo from Industry Canada's associate deputy minister to Industry Minister Bernier stating, "We have identified a number of issues that require further discussion with the company prior to approving any further investments."

The dispute centres around how much Pratt & Whitney should be reimbursed by the federal government for various research projects. Through the Access to Information process taxpayers now know, as of January 20, 2005, the company had repaid only $92-million of the $1.25-billion it had received to date. The company has since gone to Federal Court to try and block release of more detailed – and damning – information. These types of disputes show the loopholes and games recipients are allowed to play when it comes to repayment.

A New Beginning or Status Quo Industrial Policy?

While steps in the right direction have been taken by the Conservative government, they have also sent mixed messages about future plans with respect to TPC and corporate welfare in general. In August, 2006, Minister Bernier appeared to put TPC back on life support when Industry Canada announced regulations for future TPC projects.

The new regulations will include a "name and shame" policy for companies that fail to repay loans or are in breach of their contract. What about the ministers and bureaucrats that let tax money flow out the door in the first place? And what about the previous government's decision to shut down the TPC program altogether? The program was set to end, yet Minister Bernier gave hope to industry and lobbyists it will be resurrected.

The new contribution agreement tries to sweet talk recipients into allowing the industry department to share information concerning benefits with parliamentarians or in response to Access to Information requests. "For this reason, we request your permission to release the types of information outlined below," guidelines state. But read on, "Please be assured that a negative response will in no way result in any repercussions for our relationship." Seems that in Industry Canada's Ottawa, transparency is optional, but the "relationship" is everything.

Future Projects?

Since announcing new TPC regulations, the Conservatives have abandoned Liberal plans to wind TPC down. Under the new government, TPC has come back to life with new funding announcements. On September 29, 2006, Jean-Pierre Blackburn, Minister of Labour and Minister of the Economic Development Agency for the Regions of Quebec, announced for his riding a $19.1-million TPC investment in the Primary Metal group owned by Alcan. Alcan is a company with billions of dollars in annual revenues.

On October 19, 2006, Minister Bernier announced the new government's second TPC investment. This one will go to Zarlink Semiconductor, which also happens to be in a riding represented by a Conservative cabinet minister. And on December 13, 2006, Michael Fortier, Minister of Public Works and Government Services, and Colin Carrie, Parliamentary Secretary to the Minister of Industry, announced a $350-million TPC subsidy for Pratt & Whitney. The aerospace giant was back on the gravy train.

It may seem like small potatoes compared to some of the booty doled out over the past few years but it suggests that opposition to corporate welfare was just that, another empty statement from the opposition bench. The dismal records of TPC and DIPP did nothing to dissuade the Liberals from throwing good money after bad. Can taxpayers expect more of the same from the Conservatives?

SECTION VII: A New Beginning for Canada

A High Tax Burden: Canada's Competitive Disadvantage

A recent C.D. Howe Institute study, *The 2005 Tax Competitiveness Report: Unleashing the Canadian Tiger*,[2] shows Canada ranked a dismal 30th among 36 industrialized countries in terms of combined average federal-provincial statutory corporate income tax rates.

But it gets worse. The study also shows that in 2005 Canada had the second highest marginal tax rate on capital among 36 countries. The only higher-tax jurisdiction was communist China. The rate on investment is based on corporate income taxes, capital taxes, sales taxes on business inputs, capital cost allowance rates and other capital-related taxes. Table 11 – found on the next page – shows both statutory corporate income tax rates and marginal effective tax rates on capital for 36 countries.

The Link between Low Taxes and Economic Growth

Canada cannot afford to be in the bottom of the rankings in terms of business taxes. Booming economies, such as Ireland and other newly emerging economic powers, show that having competitive business taxes is essential if Canada is to hold its own in the global economy.

In the new global economy, job and wealth creation will depend on how competitive a country is vis-à-vis other nations. Simply put, a country that fails to plan for the long term will be left behind. Just as it is difficult to talk about the weather without mentioning the temperature, it is impossible to measure Canada's productivity and competitive position in the global economy without talking about the tax burden.

Canada is positioned to be a strong player in the 21st century global economy provided the right decisions are made today. As other countries surge forward, Canada risks lagging behind its competitors. Ranking second worst on the average effective business tax rate and sixth worse on the general corporate income tax rate does not indicate a country that recognizes the need to be internationally competitive. Nor do personal income taxes that are among the highest in the *OECD* and the highest of the G-7 nations.

In October, 2005, a *Conference Board of Canada* study found that Canada's competitive position is slipping year after year. A high tax burden is the culprit as lower-tax countries such as Ireland sprint ahead.

Post-Soviet republics in Eastern Europe recognize the importance of competitive taxes and have simplified their tax systems greatly by introducing a single-tax rate on personal income. Reducing the tax burden has become a global phenomenon – Israel, Greece,

2. Jack M. Mintz, "The 2005 Tax Competitiveness Report: Unleashing the Canadian Tiger," *Commentary No. 216*, C.D. Howe Institute, September 2005.

Austria, Netherlands, Germany, and France have all slashed their corporate or personal income taxes. In November, 2005, the Washington-based *Cato Institute* reports that Ireland has the second-highest per capita income and the lowest overall tax burden in the European Union. The Canadian government should stop trying to find growth through subsidies and bad loans. Instead, focus on leveling the playing field and bringing fairness back to industrial policy.

Table 11 – 2005 Average Effective Tax Rate by Country (per cent)

Country	Corporate Income Tax Rate	Manufacturing	Services	Average
China	24	45.5	46.5	45.8
Canada	**34.3**	**35.5**	**41.3**	**39**
Brazil	34	40.1	37.2	38.5
U.S.	39.2	34.6	40	37.7
Germany	38.4	37.7	36.3	36.9
Italy	39.4	33.3	38.1	36.2
Russia	22	35	34.1	34.5
Japan	41.9	34.4	33.1	33.6
France	35.4	33.3	33.4	33.3
Korea	27.5	31.9	29.6	30.8
New Zealand	33	30.1	28.8	29.3
Greece	32	33	27.8	29.3
Spain	35	29.9	25.8	27.3
Norway	28	26.1	24.7	25.1
Netherlands	31.5	25.3	24.9	25
India	33	23.2	24.9	24.3
Australia	30	29.4	22.1	24.1
Finland	26	23.5	22.4	22.9
Luxembourg	30.4	21.4	22.1	21.9
U.K.	30	22.7	21.2	21.7
Belgium	34	21.4	21.3	21.4
Poland	19	20.6	20	20.2
Denmark	30	20.6	19.4	19.8
Austria	25	20.3	18.8	19.4
Hungary	16	18.8	17.7	18.2
Czech Republic	26	21.3	14	17.7
Switzerland	22	16.9	17.1	17
Mexico	30	17.2	16.4	16.7
Ireland	12.5	14.1	13.2	13.7
Portugal	27.5	11.7	14.6	13.5
Sweden	28	12.8	11.6	12.1
Iceland	18	13.1	11.6	12.1
Slovak Republic	19	9.6	8.7	9.1
Hong Kong	17.5	6.1	8.3	8.1
Turkey	30	7.3	5.7	6.4
Singapore	20	5.8	6.6	6.2

Note: The marginal effective tax rate is the tax paid as a percentage of the pre-tax rate of return to capital, based on the assumption that the after-tax rate of return is sufficient to cover the cost of equity and debt finance provided by international lenders.
Source: C.D Howe Institute.

A Universal Growth and Job-Creation Strategy

A better approach would be to offer an internationally competitive low-tax business regime for *all*. Picking some businesses over others has proven to be ineffective at job creation, wastes billions of dollars and favours politically-connected companies that may or may not be successful in the market place. Lower taxes would benefit all firms and would let consumers determine which thrive. Tax reduction for all is a much better policy than direct subsidies for some. Businesses do not need handouts or complex loan schemes. They need a federal government that recognizes the need for Canada to be internationally competitive.

Business Leaders Agree: Grants and Subsidies are Trouble

A recent survey has found most business executives prefer lower taxes to handouts. An October, 2006, *National Post*/COMPAS survey found that "business leaders are worried about the politics of grants." They consider these schemes inherently unfair and favour politically-connected companies. COMPAS chief executive concludes, "What's their feeling about tax relief versus grants? It's a slam dunk."[3] The survey found that 90 per cent of CEOs from small and medium-sized firms prefer incentive programs such as tax credits to spur research and development as opposed to grants because they "involve no politics." There may be unrest at first by some, although readapting to less government interference will ensure greater benefits and is preferred by the majority.

Tax Relief for All

By getting out of the subsidy business, Ottawa could use those funds to reduce the corporate tax burden for all companies. Savings of $2- to $4-billion, as shown in Table 12, could be realized if Ottawa recognized that corporate welfare was not a suitable role for the government. The corporate income tax burden could be reduced by 2 or even 3 percentage points. This tax reduction will benefit all companies and improve Canada's international competitiveness and domestic economy. Imagine lower business taxes, no more business handouts, no more politicians promising the sun and moon, and no more lobbyists working to squeeze more money from taxpayers to benefit their clients.

Table 12 – Industry Canada & Regional Development Spending

Department/Agency	Annual Budget ($)
Industry Canada*	2,668,307,174
Atlantic Canada Opportunities Agency	326,247,591
Canada Economic Development Agency – Quebec	282,969,915
Western Economic Diversification	258,222,342
TOTAL	**$3,535,747,022**

* Includes all Industry Canada councils, commissions and agencies.
Source: 2005/06 Public Accounts of Canada.

[3] Financial Post, October 16, 2006.

CONCLUSION

The most depressing aspect of Industry Canada's financial assistance programs is that so little has changed in a generation, especially considering how much has changed in the way Canadians view their governments and what they expect from them. Gone are the days when Canadians will tolerate deficits, unrestrained spending, and waste as part of the political culture. Yet throughout this transformation, Industry Canada has remained the same bloated, intrusive, and politically-driven ministry.

Technology and the forces of globalization have connected nations and markets like never before. Unfortunately, discredited practices have become entrenched in the political and business realm. No case illustrates this more than Industry Canada's handout and loan programs. Billions of tax dollars are given away and billons more are "loaned" each year. Meanwhile, guaranteed repayments are paltry.

In the process, wrongs and injustices are committed against those footing the bill – the taxpayers – and glaring glitches remain. A lack of transparency, chronic rule-breaking by recipients and government officials' alike, misleading information sold by politicians, and other abuses of public money abound.

Industry Canada's programs have been thoroughly discredited over the years, yet little has ever changed. Damning internal audits and measly repayments have done nothing to stop the subsidies from flowing. Politicians replace discredited programs with new ones and everything continues.

Corporate welfare does not work. Three of the main arguments "for" business subsidies are that they create jobs, spur economic growth and encourage research and development. Yet all three are achieved at much greater levels when government involvement is limited and taxes are low. If corporate welfare worked, the companies that receive it should be out-performing their competitors, but they are not. Regions that receive the majority of the funding should be booming, but they are not. And the very firms that receive the most money should be creating countless new jobs. Yet some lay off workers and move operations out of Canada.

The auto sector is a prime example of failed corporate welfare. General Motors and Ford have received hundreds of millions in handouts and politicians are always front and centre at these announcements touting the jobs being created. In reality, both companies continue to lay off workers. In January, 2006, Ford announced massive lay-offs throughout North America, including up to 2,300 jobs in Canada. This came on the heels of General Motors' notice to restructure its workforce which included plans to lay off some 1,000 workers in Ontario.

Bombardier Canadair is another example of how handouts fail to create jobs for Canadians. As a top beneficiary of corporate welfare in Canada, Bombardier announced in October, 2005, it was building an assembly plant in Mexico that would displace 500

Canadian workers. Using Canadians hard earned tax dollars to help create jobs in Mexico is not an effective job creation strategy.

In a familiar disregard for market forces and common sense, some have called corporate welfare programs "economic engines." The evidence suggests that corporate welfare is akin to pouring sugar in your gas tank, something no engine needs. Corporate welfare and bloated grants and contributions programs are failed 19th century industrial policy.

Few taxpaying Canadians will disagree with ending the practice of handing billions of dollars to some of the most successful and profitable companies in the world. Most taxpayers, and increasingly even business leaders, agree that subsidies fail to make the economic grade. It is up to political leaders to stop pandering to the few and instead heed the will of the general population.

As nations and markets converge like never before, the state still has a crucial role to play. Governments in Canada must work together to ensure Canada is internationally competitive in the global economy. Open trade policies – abroad and at home – low taxes and minimal interference will help sharpen Canada's competitive edge, strengthen our long term competitive position, and attract new investment.

The proper role for government is to recognize its limitations and loosen its distorting economic grip. Crutches, handouts and life support from government are akin to introducing a new species into an unknown habitat. The chances of survival are always slim. Too heavy a hand from government will only hold Canada back in the global economy and prevent the free market from doing what it does best – determine job creation, drive economic growth and invest in new technology.

Technical Note

The numbers used for this report are based on total "authorizations" as opposed to "expenditures." The reason for this is two-fold: The first is to show the total "global" amount made available to each program or recipient, and second, because more often than not, the amounts approved are similar to the amounts expended.